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Pakistan

Retail Food Sector

1999

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Report Highlights:

Despite the downturn in the economy, Pakistan's retail food sector is growing at a fast pace and holds promise for increased U.S. exports of processed consumer-ready foods.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Islamabad [PK1], PK

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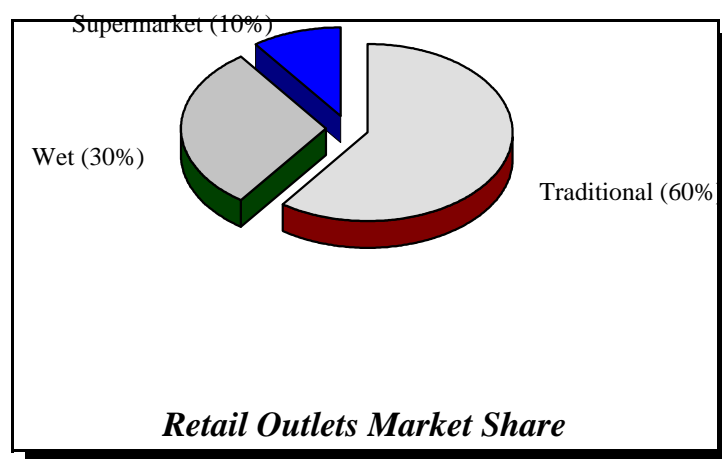
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I. MARKET SUMMARY

With an estimated 150 million consumers, Pakistan is the world's ninth largest market. Economic growth, which averaged more than 5 percent annually for the past decade, slowed last year as a result of the Asian financial crisis and economic sanctions imposed following Pakistan's May 1998 nuclear tests. One of the major objectives of Pakistan's new military government is to restore investor confidence and to implement broad economic reforms, with the aim of stimulating growth. Although per capita income remains low (about \$450), there is a large and growing consumer class (estimated at about 25 percent of the total population). The average Pakistani consumer spends 42% of her income on food.

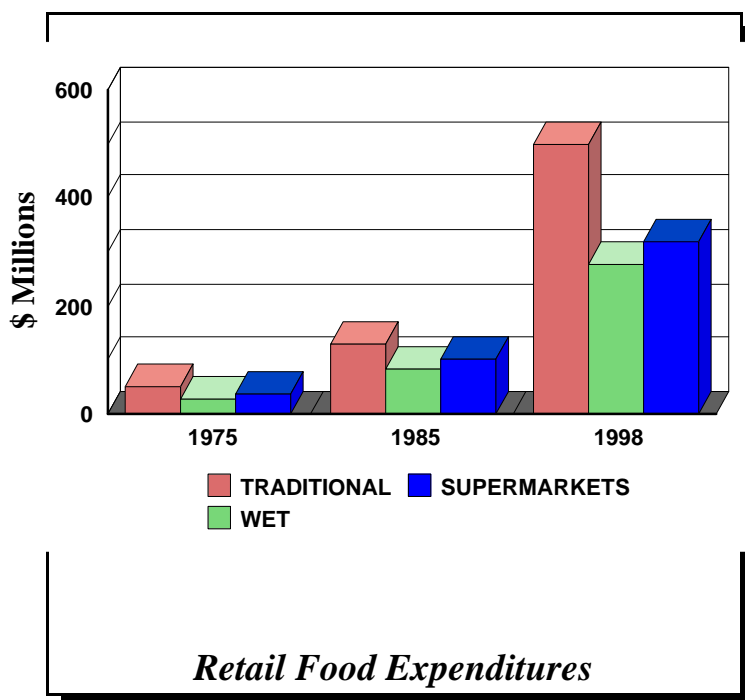
Major changes are beginning to occur in Pakistan's food retail sector. The total number of retail food outlets expanded by about 15 percent during the past decade to an estimated 286,774 outlets today. The value of processed retail food sales has grown 12 percent annually during the past decade and currently is estimated at about \$1.1 billion.

Traditional markets (small, independent shops) comprise about 60% of all outlets and sell an estimated \$500 million in processed food products annually. "Wet" markets comprise about 30% of retail outlets and are responsible for about \$275 million in annually sales, while semi-supermarkets and supermarkets comprise about 10% of all food retail outlets and have estimated sales of \$325 million annually. In addition, numerous western-style fast food chains have opened in Pakistan and are becoming increasingly popular.



The development of true supermarket chains is still in its infancy. Most "semi-supermarkets" are located in Pakistan's two major cities, Karachi (population 10 million) and Lahore (population 7.5 million) and their popularity is increasing slowly largely because Pakistani consumers erroneously assume prices in supermarkets

must be higher due to higher overhead and investment costs. A fast expanding distribution infrastructure has helped to improve marketing in rural areas. Cold storage and freezer space remains in short supply.

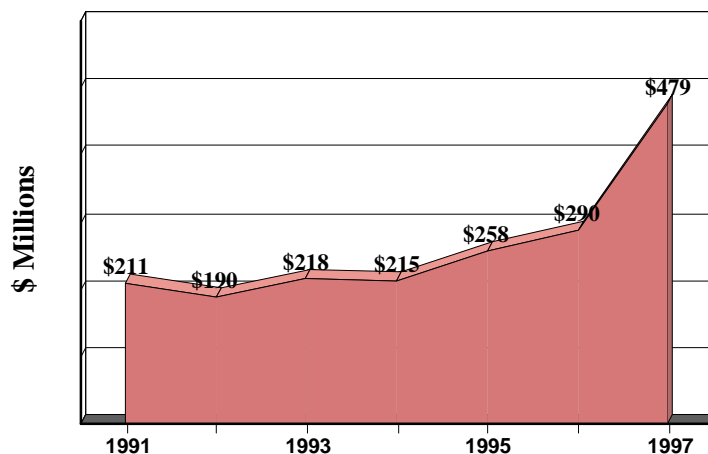


Although the quality of domestic processed food products has improved appreciably, imports account for about 60% of all processed food retail sales. In fact, the share of imported food products has increased significantly in the last decade from \$211 million in 1992 to \$479 million in 1997—an average of about 25% per year.

Retail Food Imports

Consumers prefer imported items for both quality and status reasons. Although U.S. items are popular, the product's origin is generally not the primary concern. Currently, direct imports of U.S. retail food products account for about 1% of Pakistan's total imports of consumer-oriented food products. Despite the downturn in the economy, demand for domestic and imported processed foods continues to show considerable growth. Numerous new-to-market products were introduced during the past year and sales growth of various food products ranged from 6% to 49%. Popular imported products include juices, canned fruit, sauces, honey, coffee, candy, condiments, nuts, dressing, snack foods, powdered milk and other dairy products, including ice cream. Health and dietary food items are growing in popularity.

Imported food items alcohol. The items is 35 percent. food products percent. Imported subject to a 15-domestically-Product labels must may not be offensive, expiration dates must individual package.



may not contain pork or maximum tariff for all Tariffs on imported average about 25 processed food also is percent sales tax, as are produced items. be in standard English, and the production and be indicated on each

ADVANTAGES and CHALLENGES FACING U.S. CONSUMER FOOD PRODUCTS IN PAKISTAN

ADVANTAGES

CHALLENGES

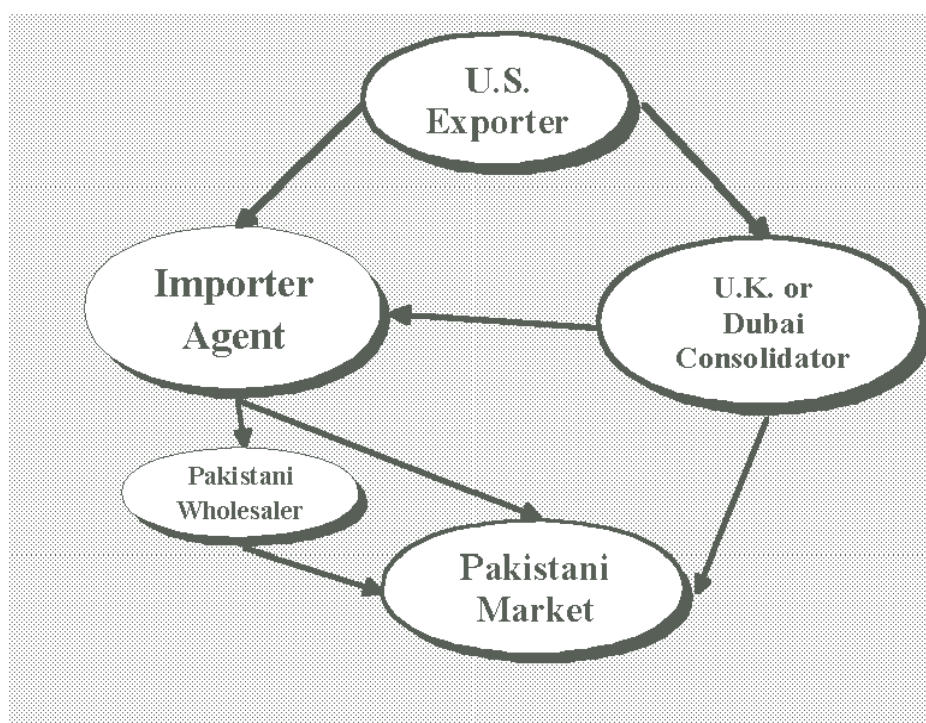
About 20% of Pakistan's 150 million consumers buy imported retail food. Total imports approach \$500 million.	Products imported directly from the U.S. accounts for less than 1% of all retail food imports.
Quality and safety are important decision variables.	Retailers and consumers have limited knowledge of the variety and quality of U.S. products.
Consumer food sales are expanding at 25% annually.	Most popular imports are from U.S. competitors due to limited contact between U.S. suppliers and Pakistani buyers.
U.S. popular culture and U.S. products, including fast foods, have growing appeal.	Retailers and consumers have limited knowledge of the variety and quality of U.S. products.
Plenty of opportunity for new-to-market products	Limited knowledge of U.S. export practices and procedures. Importers seek exclusive distribution to protect investment.
Import regulations now are more transparent and tariffs have been reduced to a maximum of 35%.	Additional transparency and reforms are required. Tariffs still high and require further reduction.
Pakistan's new government appears committed to restoring business confidence and reviving the economy.	Continued economic problems following Asian financial crisis and sanctions as a result of nuclear tests.

II. ROAD MAP for MARKET ENTRY

(Entry Strategy for Supermarkets

Because consumers have more confidence in the quality of imported foods, they are very receptive to foreign brands. An exporter's local representative is the key to a product's successful entry in the Pakistani market. The local representative should have a thorough understanding of the product and import regulations, including labeling and other requirements. In addition, he should understand the local market and consumers' preferences, have an efficient distribution network and, above all, be committed to marketing the product.

MARKET STRUCTURE



- C Products imported agents wholesal distribut products usually are by traders or who may also be ers or ors. Most are purchased
- from consolidators in England and the United Arab Emirate (U.A.E.) In person.
- C Most imports consist of established European or international brands, which require little or no market promotion.
- C
- C Products imported by agents, who then promote them to local retailers and consumers have done well in the market.
- C Importers who promote a product expect exclusive distribution rights to protect their investment.

- C Supermarkets generally do not take the financial risk of direct imports but instead buy from importers or distributors.
- C Importers generally import a variety of products and supply a variety of retail outlets.
- C Only a few distributors have nationwide distribution networks. Refrigerated distribution is limited to a few local manufacturers.

MAJOR SUPERMARKETS

Name of Retailer	Ownership	CY 98 Sales \$ Million	Number of Outlets	Location	Type of Agent
Utility Stores Corporation	Pakistani	196.00	715	Nationwide	Manufacturer Import/Dist
Shezan Bakers	Pakistani	16.40	22	Major cities	Import/Dist
Pace Pakistan	Pakistani	1.92	1	Lahore	Import/Dist
Tes-Mart	Pakistani	6.60	1	Karachi	Import/Dist
Value Store	Pakistani	6.48	3	Major cities	Import/Dist
New Paradise	Pakistani	6.00	1	Karachi	Import/Dist
Agha Super Store	Pakistan	6.00	1	Karachi	Import/Dist
Karim Buksh Super Market	Pakistani	6.00	3	Lahore	Import/Dist
Al-Fateh Store	Pakistani	4.40	1	Lahore	Import/Dist
Treasure	Pakistani	4.40	1	Karachi	Import/Dist
Rahat Bakers	Pakistani	3.60	8	Major cities	Import/Dist

French Bakery	Pakistani	1.50	5	Major cities	Import/Dist
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(Entry Strategy for Convenience Stores, Gas Marts and Kiosks

U.S.-style convenience stores have only recently been introduced and have had only limited success. Traditional “Mom-and-Pop” stores act as convenience stores. Roadside stalls are very popular but generally do not sell imported food items. Several oil companies have recently introduced gas marts in major cities. Product lines generally are limited and include both domestic and imported retail food items. Because they are in the early stages of development and volumes are small, most purchase their requirements from distributors. Thus, the strategy for entering this market would be similar to the strategy for supermarkets.

MAJOR GAS MARTS

Name of Retailer	Ownership	CY 98 Sales \$ Million	Number of Outlets	Location	Type of Agent
Shell	Pakistan/UK	.40	45	Major Cities	Distributor
Caltex	Pakistan/US	.28	30	Major Cities	Distributor
Pakistan State Oil	Pakistani	.08	22	Major Cities	Distributor

(Entry Strategy for Traditional Markets

Traditional markets deal in both fresh and processed products. Processed products carried by traditional markets generally must have a long-shelf life and be affordable to the general consumer. Since traditional markets are small and independently owned, they generally purchase imported products from wholesalers, rather than from agents or distributors. However, the entry strategy would be similar for supermarkets.

- C Small retailers in traditional markets directly purchase from wholesale market.
- C Some importers have developed their own distribution systems..
- C Few traditional markets have refrigeration, except that provided by certain distributors for their exclusive use. As a result, products must be nonperishable.
- C Although most outlets are small, they carry a large variety of products and often several brands of the same product.
- C Since traditional markets cater to the general consumer, affordable staples tend to do well.

III. COMPETITION

European and Far Eastern countries, plus Australia, New Zealand and South Africa are the major U.S. competitors. The source of competition varies widely by product. Almost all competitors have a freight advantage over the United States. Products from the Far East often have a price advantage but not a quality advantage. Pakistani consumers generally are more familiar with European products due to their long and close association with Europe. Even when a U.S. product is imported, it generally is purchased indirectly from consolidators in Dubai or is manufactured outside of the United States.

The general practice is for importers to visit or to place orders with foreign wholesalers. Importers increasingly prefer to look for company's with new brands and products that offer exclusive distribution rights. Several new products have been successfully introduced and promoted under exclusive distribution rights. For example, European honey and cooking oil have developed a strong consumer preference due largely to promotional efforts of the sole distributor. Recently, an international firm successfully launched a brand of orange juice in cooperation through a local agent with sole country distribution rights.

IV. BEST PRODUCT PROSPECTS

(Products Present in the Market with Good Sales Potential

Branded retail-packed vegetable oils, roasted nuts, peanut butter, chips, confectionery products, chocolates, fruit cocktail, mayonnaise, juices, honey, and cereals are popular imported food products. Most of these products are sold in traditional outlets and supermarkets. Although major international brands are popular, there is good potential for new brands, especially if they are price competitive and are promoted.

(Products Not Present in Significant Quantities but which Have Good Sales Potential

Demand for imported beverages, especially fruit juices, liquid and dry milk, salad dressings, microwave popcorn, and confectionary products is growing rapidly. Consumers also are developing a preference for speciality foods, particularly fat-free and sugar-free products, including jams, jellies cookies, candies, and food supplements.

(Products Not Present Because They Face Significant Barriers

Pork and pork products as well as alcoholic beverages may not be imported for religious reasons. Consumers also have reservations about imported meat products due to concerns about the reliability of "halal" products originating from non-Islamic countries.

V. POST CONTACT

If you have questions or comments regarding this report or need assistance exporting to Pakistan (or Uzbekistan or Kazakhstan), please contact the Foreign Agricultural Service Office in Islamabad at the following:

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